

**Internal Revenue Service**

**Department of the Treasury**

Washington, DC 20224

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: [REDACTED]

Date: SEP 20 1995

Employer Identification Number: [REDACTED]  
Key District: Chicago

Dear Applicant:

We have considered your application for recognition of exemption as an organization described in section 501(c)(4) of the Internal Revenue Code. Based on the information submitted, we have concluded that you do not qualify for exemption under that section.

**FACTS**

You were formed on [REDACTED], pursuant to the laws of [REDACTED]. You submitted your application under section 501(c)(4) of the Internal Revenue Code on [REDACTED].

Rider B to your Articles of Incorporation provides:

"The Corporation is organized as a not-for-profit corporation exclusively for charitable, educational, and scientific purposes, to support, encourage, promote, arrange for, facilitate and otherwise encourage cost effective delivery of physician, hospital and other health care and human services in an appropriate manner and to engage in other activities which facilitate the efficient and competitive provision of health care services. The Corporation shall not be empowered to engage in the practice of medicine."

In your application you stated that you were created to negotiate managed care agreements between your physician-members and employers and/or insurance carriers.

After your formation you entered into a joint venture relationship with [REDACTED], [REDACTED], and [REDACTED]. This joint venture was called [REDACTED]. For several years you functioned as an integral part of this joint venture. The joint venture was organized to negotiate managed care agreements on behalf of the members.

In [REDACTED] you withdrew from this joint venture and have been operating independently since that time. As has always been the case, you carry on the following activities:

1. Credentialing of members;
2. Collecting funds from your members to support operations;
3. Negotiating with insurance carriers and employers to provide medical services at a discounted rate;
4. Advising members on the terms of the negotiated agreements;
5. Paying your bills; and
6. Conducting quality assurance activities.

As provided by Section I of your Bylaws your members are elected by the vote of your Board of Directors from among those persons who are members of [REDACTED]

[REDACTED]. Members are admitted upon payment of dues. Your membership elects the members of your Board of Directors. Board members are elected from among your members.

You have only one source of financial support; that is, the dues collected from your membership. Since the agreements with insurers and employers provide for payments to be made directly to the physician provider no payments are made to you.

#### ANALYSIS

Section 501(c)(4) of the Internal Revenue Code exempts from federal income tax civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare. Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one that is operated primarily for the purpose of bringing about civic betterment and social improvements.

Rev. Rul. 86-98, 1986-2 C.B. 74, holds that an individual practice association that provides health services through written agreements with health maintenance organizations ("HMOs") does not qualify for exemption from federal income tax as a social welfare organization under section 501(c)(4) of the Code.

### RATIONALE

An organization with your characteristics is commonly referred to as an Independent Physician Association ("IPA"). To determine your eligibility for exemption under section 501(c)(4) of the Code we must consider if you qualify as an organization operated exclusively for the promotion of social welfare. Therefore, a showing of benefit to the community is required.

You are not a health care provider. Rather, you are a network of private physicians seeking to offer their services to employees of participating employers and to health insurance companies. As in Rev. Rul. 86-98, supra, participation in the network benefits the private physicians by increasing their patient base and, to the extent rates are lower, the private employers and/or their insurance carriers. However, your activities do not significantly benefit the people of the community as a whole because no new health care providers or personnel will be available to these communities as a result of your activities. We, therefore, conclude that you are not entitled to exemption under section 501(c)(4) of the Code because you are not primarily engaged in promoting in some way the common good and general welfare of the people of the community as required by section 1.501(c)(4)-1(a)(2)(i) of the regulations.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your principal officers, must be submitted in duplicate within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under the Conference and Practice Requirements.

When corresponding with us concerning this matter, please use the following address:

Internal Revenue Service  
[REDACTED]  
1111 Constitution Ave., N.W.  
Washington, D.C. 20224

If you do not protest this ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies.

[REDACTED]

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to the District Director, Chicago, Illinois, which is your key district for exempt organization matters. Thereafter, any questions about your federal tax status or the filing of returns should be addressed to that office. If you want the matter reopened at a later time, you must pay a new user fee as provided in Rev. Proc. 95-8, 1995-1 I.R.B. 187.

Sincerely yours,

(signed) [REDACTED]

[REDACTED]  
Chief, Exempt Organizations  
Technical Branch 1

[REDACTED]